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HIGHLANDS INSURANCE COMPANY
HIGHLANDS UNDERWRITERS INSURANCE COMPANY
HIGHLANDS CASUALTY COMPANY
ABERDEEN INSURANCE COMPANY
HIGHLANDS LLOYDS

10370 RICHMOND AVE., HOUSTON, TEXAS 77042-4123
PHONE (713)267-8392 FACSIMILE (713) 267-8588

December 4, 1997

Michael David Lichtenstein
Lowenstein, Sandler, Kohl, Fisher & Boylan
65 Livingston, Ave.
Roseland, NJ 07068-8700

RE: Insured: The Marmon Grp., Hyatt Corp., Trans Union Corp., et al
Claimant: Coeur d' Alene Tribe
Location(s) : Coeur d' Alene River Basin
Claim No.(s) : 662990 through 662994

TOXIC WASTE

Dear Mr. Lichtenstein:

We are in receipt of material on the captioned matter, in which we are advised of your potential involvement at the above location(s). We have created file(s) under the referenced file number(s), and it would be appreciated if this were used on all future correspondence.

The purpose of this letter is to apprise you of potential coverage problems relating to this matter. Because of the uncertainties presently existing on pollution and toxic chemical-related claims, Highlands Insurance Company respectfully directs your attention to the following areas:

POLICY DATES:

Claims may be made alleging varying dates during which damages may have been incurred, due to exposure to, or generation of, pollutants or toxic chemical related products. The policy(ies) of insurance issued by Highlands Insurance Company may cover only a portion of this period of exposure. Therefore, Highlands Insurance Company must require adequate substantiation from you showing that our policy(ies) was

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effective and should cover each claim for which you seek coverage under the terms of our policy(ies) of insurance.

CONTAMINATION/POLLUTION EXCLUSION:

Many of the underlying policies of insurance, and some of the Highlands Insurance Company policies, contain an endorsement excluding coverage for contamination or pollution. This exclusionary endorsement generally does not apply if such discharge, dispersal, release or escape is sudden and accidental. If it is proven that an insured was aware of the alleged dangerous characteristics of pollutants and/or toxic chemical related products, there is some doubt as to whether or not the Highlands Insurance Company policy(ies), and/or underlying policies, would afford coverage. Highlands Insurance Company must, therefore, respectfully reserve its rights on this matter, and no action taken previously or hereafter should be construed as an admission of coverage or liability under any policy(ies) issued to you by Highlands Insurance Company.

In addition, some of the later policies contain an Absolute Pollution Exclusion to the effect that coverage is not afforded even if the discharge is sudden and accidental.

OWNED PROPERTY:

Many of the underlying policies contain an exclusion for damage to property either owned, occupied or leased to the insured, or over which for any reason it may be exercising physical control. As the Highlands Insurance Company policy would generally follow such underlying policy, there may be no coverage if facts show this to be the case, and the company must respectfully reserve its rights in this respect also.

PROPERTY DAMAGE:

Some of the allegations sought may not meet the definition of property damage under our policy(ies).

INTENTIONAL CONDUCT ALLEGATIONS:

Occasionally, there may be allegations of various intentional acts made against an insured, such as breach of contract, willful, wanton or malicious conduct, fraud, conspiracy, concealment, etc. If such allegations are made and are proven to be true,

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there may be no coverage under our policy(ies) of insurance, since coverage is based on a covered occurrence. Occurrence is generally defined as an accident, including injurious exposure to conditions, neither expected nor intended from the standpoint of the insured.

PUNITIVE/EXEMPLARY DAMAGES:

The various jurisdictions involved in the pollution and toxic chemical-related litigation may have differing, and often conflicting, decisions relating to coverage under a policy of insurance for punitive/exemplary damages rendered against an insured. Because of the uncertainties relating to coverage in this area, Highlands Insurance Company again respectfully reserves all rights and no action previously taken, or hereafter taken, shall be construed as an admission of liability or coverage under any policy for punitive/exemplary damages.

TERMS OF UNDERLYING POLICIES:

Excess liability policies issued by Highlands Insurance Company may be subject to the same terms, conditions, definitions and exclusions as are contained in, or may be added to, the underlying policies prior to the happening or incident for which claim is made. There may be applicable terms or exclusions in various underlying policies that may exclude or limit coverage. Since the Highlands Insurance Company policy would generally follow the underlying policy, the exact coverage afforded can be determined only after a full review of all underlying policies.

EXHAUSTION OF UNDERLYING LIMITS:

Since the policy(ies) of insurance issued by Highlands Insurance Company is in excess of stated underlying limits, there may be no coverage under such policy(ies) until the exhaustion of all limits available to an insured under such policy(ies). If such be the case, adequate substantiation must be provided to the company that all applicable underlying limits have, in fact, been exhausted.

We are, therefore, accepting this under a full Reservation of Rights, subject to the foregoing. The issues and facts associated with this, however, may change in the future and necessitate continual redefinition of applicable coverage positions. Other rights or defenses may presently exist, or come to light in the future so we must respectfully reserve our rights not only as referred to above, but also with respect to all other terms,

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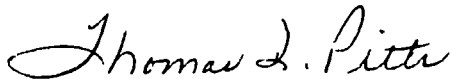
conditions and exclusions that may exist under any policy issued by Highlands Insurance Company, or that may be applicable in any underlying policy of insurance.

It is understood, of course, that you reserve the right to claim that coverage exists, and should be afforded under any policy of insurance issued by Highlands Insurance Company.

We would at this time appreciate your keeping us apprised, with more substantial information as it is developed, of any correspondence received from the EPA or other parties, as well as the progress of the remediation projects and, subject to your ability to provide it, the costs of remediation involved, and your share of such costs.

If you have any questions, please do not hesitate to give me a call at 713/267-8392.

Very truly yours,

A handwritten signature in cursive script that reads "Thomas D. Pitts".

Thomas D. Pitts
Claims Supervisor
Reinsurance Ceded and Run-off Division